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Total Economic Impact™ Of IBM Social Collaboration Tools

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Executive Summary

The financial impact of collaboration on productivity and processes is often elusive. Yet companies are purchasing collaboration tools at a growing rate with the expectation that the impact will be real. As the world economy pulls out of the worst downturn in decades, many organizations are making a fundamental bet on knowledge worker efficiency to fuel growth during the upturn. To that end, new methods are emerging to quantify the value of better access to knowledge and expertise. That expectation has been fueled by the inclusion of social networking tools, which bring additional ways for collaboration to succeed within a business environment. This study aims to expose areas that can be financially impacted by a successful collaboration strategy combined with enterprise collaboration tools and identify new techniques for measuring the value of collaborative technology.

In November 2009, IBM commissioned Forrester Consulting to examine the total economic impact enterprises may realize by deploying IBM Social Collaboration tools. IBM Social Collaboration tools include IBM software and applications for unified messaging and social software — such as communities, online meetings, rich audio and video, chat, blogs, profiles, wikis, team spaces, and file sharing — and the IBM Lotus Connections, Lotus Sametime, and Lotus Quickr products. This study illustrates the potential financial impact of introducing collaborative tools to knowledge workers within a global organization and its impact on business processes and productivity.

Purpose

The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of IBM Social Collaboration tools in their organizations as part of a strategic investment in collaboration. Forrester's aim is to clearly show all calculations and assumptions used in the analysis. Readers should use this study to better understand and evaluate investing in IBM Social Collaboration tools.

Approach

Forrester used a four-step approach for this study:

1. Forrester gathered data from existing Forrester research relative to IBM Social Collaboration tools and the emergence of social networking and collaborative tools in global enterprises.

2. Forrester interviewed IBM marketing and sales personnel to fully understand the potential (or intended) value proposition of IBM Social Collaboration tools.

3. Forrester conducted in-depth interviews with one global organization currently using IBM Social Collaboration tools and relied upon Forrester knowledge of current collaboration trends.

4. Forrester constructed a financial impact model representative of the interviews. This model can be found in the TEI Framework section below.

Key Findings

In conducting in-depth interviews with an existing customer, Forrester found that IBM Social Collaboration tools bring the company potential benefits across multiple areas:

- Increased revenues from new product ideas facilitated by collaboration tools that result in more new products brought to market.
- Faster time-to-market of products, resulting in faster accrual of revenue.
- Staff productivity gains through faster access to expertise and information regardless of location.

Disclosures

The reader should be aware of the following:

- The study is commissioned by IBM and delivered by the Forrester Consulting group.
- IBM reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.
- The customer for the interview was provided by IBM.
- Forrester makes no assumptions as to the potential impact that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the report to determine the appropriateness of an investment in IBM Social Collaboration tools.
- This study is not meant to be used as a competitive product analysis.

IBM Social Collaboration: Overview

According to IBM, IBM Social Collaboration tools, consisting of IBM Lotus Connections, Lotus Quickr, and Lotus Sametime products, provides the tools to help people connect and collaborate effectively to provide important business benefits.

Lotus ***Connections*** is social software for business. It empowers business professionals to develop, nurture, and remain in contact with a network of their colleagues; respond quickly to business opportunities by calling upon the expertise in their network; and discuss and refine new creative ideas with communities of coworkers, partners, and customers.

By empowering people to easily connect with employees, partners, and customers, Lotus Connections can help businesses, government agencies, educational institutions, and others realize the following benefits:

- Communities can be brought to bear to drive thinking and initiatives through collective action
- Task execution is faster through quick access to information from an expanded professional network
- Increased efficiency and effectiveness of business processes by using existing skills discovered through your professional network
- Decisions can be made with confidence knowing they were vetted by experts across the organization and reflect past experience
- Innovative products and services can be developed using the experiences and knowledge of communities of employees, partners, and customers
- Sustainable competitive advantage can be created by leveraging innovation from across your value chain and building stronger relationships

IBM Lotus ***Sametime*** software provides unified communications —voice, data and video—that make it easy for people to find, reach and collaborate effectively with others. Lotus Sametime delivers the following integrated capabilities:

- **Enterprise Instant Messaging**: rich text, audio and video chat that's built for secure,robust enterprise use
- **Rich presence-awareness**: lets you know whether now is a good time to initiate a real-time conversation
- **Online meetings**: high-quality document-, application- and screen sharing.
- **Mobility:** rich mobile clients
- **Community collaboration tools**: find, reach and collaborate with communities of users who may not be in their contact list:

- **Telephony Integration:** unify multiple end-user devices and heterogeneous telephony infrastructures

- **Software developer kit**: Eclipse-based rich-client and Web 2.0 APIs to communications-enable business processes.

Lotus Sametime software's unified user experience—and the ability to invoke it from wherever people work—helps drives adoption. Adoption, in turn, can drive real value for business:

- Spend less time trying to find people who can answer questions and more time being productive. Lower customer service and help desk costs by more effectively resolving issues.

- Drive more sales by speeding approvals and answering customer questions faster—and better.

- Cut travel, conferencing and communication costs with online meetings and Voice over IP (VoIP).

- Speed project completion for teams in different locations, countries, and time zones, including mobile and remote employees.

- Provide better employee work-life balance by extending the ability to work virtually anywhere while ensuring effective management and working environment.

- Move seamlessly among text chats, voice and video calls, and online meetings—whatever best fits the situation. .

- Add optional one-number phone service, softphone and intelligent call management capabilities to an existing telephony infrastructure. Extend the life of your current communications and application investments rather than ripping and replacing it.

Lotus Quickr is team collaboration software designed to make easier and more efficient the way people share everyday business content within and across organizational boundaries. Lotus Quickr's easy-to-use, intuitive team room and content library structure provides the following l benefits:

- Help teams and workgroups become more efficient and more productive, including teams that span multiple geographies and time zones

- Broaden team membership to include business partners and customers to accelerate business cycles and create better relationships

- Share, access and collaborate on team content that is the most up-to-date, eliminating and reducing duplication of efforts and content inconsistencies

- Empower teams to set up and manage their information and projects in a security-rich environment without requiring IT assistance.

- Provide an effective alternative to e-mail for storing and managing content — cut down on e-mail overload

- Capture and reuse business best practices in templates so that teams and projects can get "up and running" more quickly

- Get more out of existing investments by using plug-in connectors that connect Quickr team rooms and libraries with other familiar software programs and platforms you already have such as Microsoft Outlook and Lotus Notes, Microsoft Office or Lotus Symphony, IBM Websphere Portal and IBM ECM systems.

For more detailed information about IBM Lotus Connections, Lotus Sametime, and Lotus Quickr, see http://www.ibm.com/lotus/socialsoftware

Analysis

As stated in the Executive Summary, Forrester took a multistep approach to evaluate the impact that implementing IBM Social Collaboration can have on an organization:

- Interviews with IBM marketing and sales personnel.
- In-depth interviews of one organization currently using IBM Social Collaboration.
- Construction of a common financial framework for the implementation of IBM Social Collaboration.

Interview Highlights

The customer interviewed for this study is a large, global manufacturing company of more than 50,000 employees with a complex product set consisting of tens of thousands of product families and more than a million SKUs.

The in-depth interview with the company uncovered the following relevant points:

- As with many large enterprises, the company had slowly introduced collaborative tools into the enterprise over many years, mostly in audio/video/Web conferencing and IM. These tools were effective and the investment justified, yet the company lacked a cohesive collaboration strategy that met strategic needs throughout its expansive business. The company realized that the latest Web 2.0 and social networking tools could prove even more beneficial to its business.
- The investment in collaboration tools was sanctioned at the highest levels of the senior management within the company. Justification for the investment was facilitated by the CIO working with other senior executives to pinpoint technology investments that met strategic corporate objectives of supporting new market and new product growth.
- The company selected IBM Social Collaboration tools for their business and technology environment. The company feels that IBM Social Collaboration provides an easier integration environment, tight search integration, (auto) tagging, and tag clouds, and requires less central administration.
- The global rollout was prefaced with senior executive buy-in and messaging throughout the organization as a way of promoting the adoption of the new tools and reinvigorating a traditional culture of innovation.
- The company implemented a global rollout of IBM Social Collaboration, allowing any knowledge worker to use and interact with others using built-in functionality of the tools. Yet there was a specific focus on use within the R&D and sales groups as two groups that could benefit quickly from it and which fit the company's strategic commitment to collaboration, innovation, and driving new product sales.
- With the company's expanded focus on worldwide technical innovation, especially in emerging markets like Brazil, Russia, India, China, and Turkey, the CIO office realized that collaborative technologies and strategies could have a real impact on their new product pipeline. To drive innovation throughout the world, new-to-company employees in these

developing markets needed a mechanism to interconnect with subject-matter experts to explore applying technology platforms to a market need and combining technologies in unique ways to produce and market new products. The company feels strongly that IBM Social Collaboration tools can fulfill the need for expertise and information location that leads to the connections of similar and disparate technologies across its global network. For R&D, IBM Social Collaboration allows for searching of blogs and communities, improving on expertise and information location.

- The direct sales force was the other area that the company felt could be positively impacted by the right collaboration platform. With a geographically diverse sales force that calls on key accounts or in partnership with distributors, cross-selling, account strategy, and technical product support are important to maximize each sales opportunity, increase the quality of proposals and interactions, and allow more time for the sales force to be selling.

- Although a communication plan was executed with the rollout of the IBM Lotus Connections site, the company feels that much of its use and adoption has grown virally rather than organically with high current usage. The company reports high activity on the IBM Lotus Connections site, which is viewed by 7,500 unique visitors with 14,000 visits per day and 75,000 page views per day. More than 12,000 photos have been uploaded. Most of the information entered is related to the person's area of expertise, product involvement, sales area, and which is tagged for location by others.

- The company reports virtually no training was required to implement and roll out the IBM Social Collaboration suite. Some self-paced tutorials were created, but most users can use the tools without training. The help desk has received so few help desk calls in relation to the rollout that the company does not have a need to track those statistics in detail.

- With the continued use of the IBM Social Collaboration tools and the increased use of blogs and wikis that are "target rich" with sophisticated tags, the company indicates that the "cultural" journey of using social tools within the business is just beginning. The return on investment will only grow in the years to come.

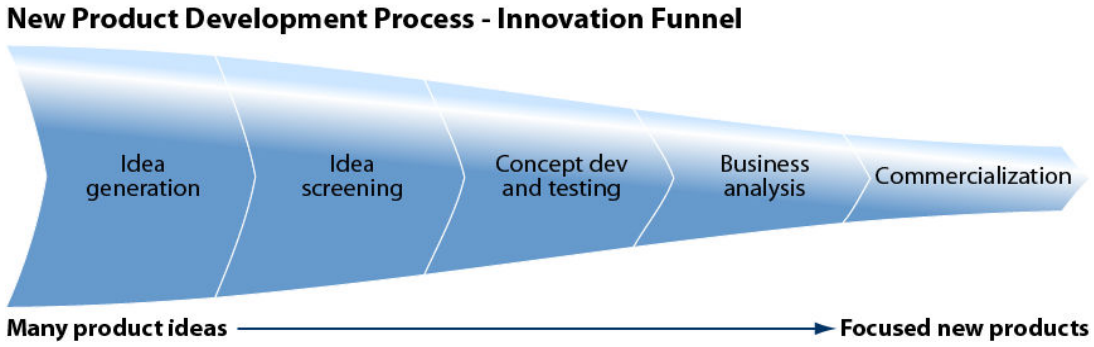
- Further, the company believes that use of the collaboration tools will continue to change in ways the company may not be able to anticipate today. Collaboration is being woven into business processes, and the company is letting its use grow without bounds. It believes the key to success is to let individuals and groups participate, and the strategic and financial return will follow.

Although the IBM Social Collaboration tools have been rolled out globally, the focus of the initial use is use by the R&D and sales organizations. The company felt that these are the organizations the collaboration tools would have the most immediate impact on. The analyses of these business processes are illustrated in the following sections.

New Product Development Process

The heart of any new product development process is the idea-generation phase, as seen in Figure 1. Inputs to this phase are driven internally within the organization, mostly through the R&D department, but also departments such as engineering, marketing, sales, operations, and manufacturing. The more a company can widen the mouth of the funnel through increased ideas, the more chances it has to identify, develop, produce, and commercialize products. The breadth of ideas is important when one considers that often only 1% or 2% of ideas that enter the funnel are commercialized.

Figure 1: New Product Development Process – Innovation Funnel



Source: Forrester Research, Inc.

In the interviewed company, enabling ways to increase idea generation is at the heart of its use of IBM Social Collaboration. With scientists and engineers working in many different fields and with a focus on bringing new products to market, employees are encouraged to use the collaboration tools to identify what people, specific technologies, innovations, or related work are being done throughout its vast internal network in relationship to their own field. This is actively happening at the company as seen by the high hit rate on the IBM Lotus Connections Web site and use of "Profiles." R&D employees (as well as sales, marketing, and engineering staff) in emerging markets are tapping their colleagues around the world to develop new product ideas and shorten time-to-market.

Although the global rollout of IBM Social Collaboration tools has been in place for only six months, there is evidence that collaboration and "serendipitous interactions" are occurring. This activity is opening up the inertia of information that is often locked away in the far corners of the company. By carefully managing the technology communities to protect intellectual property, the company is able to open up the proprietary ideas and innovations to be applied to other areas.

The company believes that the use of the IBM Social Collaboration tools is making, and will further make, an impact on the number of product ideas that enter the innovation funnel, sometimes in ways that are not fully understood now as people will continue to use social networking tools in new, innovative ways. Although there are always many factors that can contribute to idea generation — the interviewee at the company says "success has many fathers" — the high activity on the IBM Lotus Connections site is expected to become a significant contributor to the collaboration and innovation culture at the company. Further, many companies justify their investment in collaboration on the idea that its role in bringing together disparate ideas and technologies across a vast enterprise can lead to just one multimillion- or even multibillion-dollar blockbuster product, making the investment worthwhile.

Forrester has modeled the impact on the new product development process in two areas:

Increased new product revenue. With the increase of product ideas enabled by collaboration and the IBM Social Collaboration tool set, the number of marketable products that come out of the innovation funnel increases with more product ideas entering the funnel. This leads to an

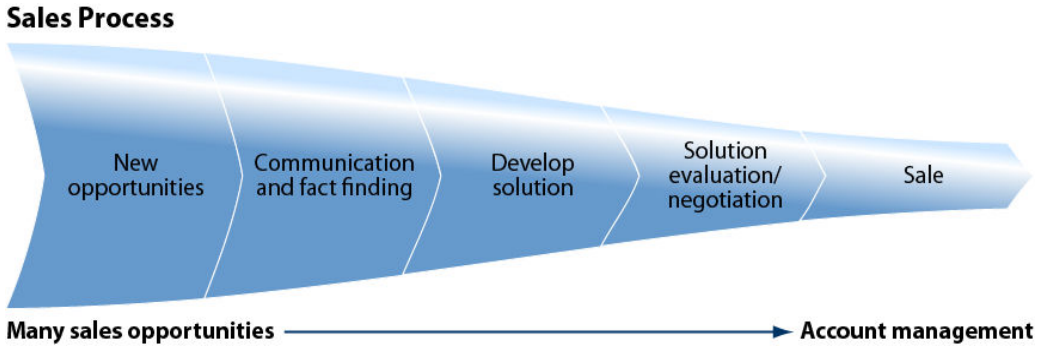
incremental increase in new product revenue as compared to not having the collaboration tools. The Benefits section "Revenues Of Incremental New Products" illustrates how this can be modeled.

Improved time-to-market. The output of the innovation funnel is the formal product development process, which can be made more efficient through the use of IM and improved collaboration through IBM Lotus Connections, Lotus Sametime, and Lotus Quickr. A further benefit of collaboration on the innovation funnel is that IBM Lotus Connections improves the efficiency of finding important product experts and data, sharing product information and best practices, and enabling a product to come to market faster. The assumption is that the product may have made it to market without IBM Lotus Connections but it comes to market faster due to the collaborative processes that are improved. The process of validating and refining the idea is greatly improved with the collective wisdom of the organization behind it. Additionally, the collective organization has the potential to identify factors that could delay product introduction. In the Benefits section, "Improved Time-To-Market" illustrates how this can be modeled.

Sales Process

A typical sales process can also be represented as a funnel from new sales opportunities through the sales pipeline and ultimately managing the account, as seen in Figure 2.

Figure 2: Sales Process



Source: Forrester Research, Inc.

The interviewed company has a vast array of products in multiple industries that often involve complex technologies. For salespeople to be more effective, they must be given the tools to maximize their time selling and putting forth the highest-quality proposals that best meet client needs. Intimate technical product knowledge and understanding and taking advantage of cross-selling opportunities are ways to realize increased incremental sales.

New opportunities, communication, and fact finding are facilitated by sales communities banding together using the IBM Collaboration tools to share and build professional competence around company sales practices and products that facilitate cross-selling and upselling. The company is seeing two types of sales communities grow in its collaboration platform: *within* divisional sales regions (close geographical proximity), *between* divisional sales regions (geographically dispersed), and national/global account communities between divisions.

The develop solution and solution evaluation/negotiation process steps are assisted by IBM Social Collaboration tools in that salespeople can quickly find and engage technical service

engineers to help with product specifics and proposing higher-dollar solutions that meet customer needs.

Forrester has modeled the impact on the sales process through incremental sales:

Incremental sales. Based on the communities that have popped up on IBM Lotus Connections and the use of Lotus Sametime to facilitate discussions among peers, salespeople are more productive, are spending more time selling, and are putting forth higher-quality proposals that involve the right company solutions that meet customer needs and include upsell and cross-sell of products in the proposals. Ultimately, improved efficiencies and connections in the sales funnel result in incremental sales through higher-value deals.

TEI Framework

Introduction

From the information provided in the in-depth interviews, Forrester has constructed an impact framework for those organizations considering the implementation of IBM Social Collaboration suite of tools. The objective of the framework is to use the available data to illustrate the financial measures, including cost, benefit, and risk factors that affect the investment decision.

Benefits

This section describes the benefits the company received from using Social Collaboration as described in the New Product Development Process and Sales Process sections.

Revenues Of Incremental New Products

Many companies that make strategic investments in collaboration software, like the interviewed company, have difficulty in determining the direct impact that it has on the product pipeline. Yet given their commitment to innovation as the foundation of their new product revenue stream, they agree that it is integral to their strategic efforts and worth the investment. The interviewed company is anticipating that the collaboration enabled by the IBM Social Collaboration tools will grow its new product pipeline, lead to more products coming to market, and potentially increase its revenue.

The activity levels on the IBM Lotus Connections site indicate that collaboration is being strongly adopted and used within the R&D function. Table 1 shows how this can be modeled. As with many large, global organizations, new product revenue is a sign of company strength as being reflective of its innovation process, R&D prowess, and ability to replace and augment its product line every year. This company tracks new product revenue each year and indicates that 7% of total revenue is from new products or new product lines. At this $20-billion company, that is $1.4 billion in new product revenues each year, and with a 30% gross margin, equates to $420 million in profit. With about 150 major new product lines each year, this is $2.8 million per product line. With an estimate of 2% of ideas entering the innovation funnel making it to market, 7,500 product ideas enter the funnel each year.

Forrester uses risk adjustments, a component of its TEI methodology, in calculating the benefits. The TEI methodology incorporates the idea that any estimate has a range of potential outcomes. Using a triangular distribution method, the range of outcomes can be modeled by using three values that estimate the low, likely, and high values. This is seen in Table 1 (reference row A10) in estimating the impact the IBM Social Collaboration suite has on the number of product ideas entering the new product development funnel. A low estimate is an almost negligible (0.1%) increase in new ideas resulting in minimal revenue increase. A likely estimate is a modest increase (0.5% or 37.5) of ideas. A high estimate is an increase of 2% or nearly 150 ideas. Based on the profit per product, this can result in appreciable new revenue to the company, especially considering that this revenue stream continues for many years.

Table 1: Revenues Of Incremental New Products

Ref.	Metric	Calculation	Low estimate	Likely estimate	High estimate
A1	Total revenue		$20 billion		
A2	Percent new product revenue		7%		
A3	Total new product revenue	A1 * A2	$1.4 billion		
A4	Gross margin percentage		30%		
A5	New product revenue	A3 * A4	$420,000,000		
A6	Number of new product lines contributing to new product revenue		150		
A7	Profit per new product	A5 / A6	$2.8 million		
A8	Percent of ideas to market		2%		
A9	Number of product ideas entering innovation funnel	A6 / A8	7,500		
A10	Increase in new product ideas (%)		0.1%	0.5%	2.0%
A11	Increase in new product ideas	A9 * A10	7.5	37.5	150.0
A12	Incremental new products	A11 * A8	0.15	0.75	3.00
At	Revenues of incremental new products	A12 * A7	$420,000	$2,100,000	$8,400,000

Source: Forrester Research, Inc.

Improved Time-To-Market

Similarly, collaboration can greatly impact how fast products come to market, resulting in improved time-to-market. The company believes that IBM Social Collaboration suite will play a major role in a number of products coming to market faster and generating incremental revenues by easing organizational frictions through better access to content, expertise, or collective decision-making. Again, using the concept of risk to model three possible outcomes, Table 2 (reference row B3) shows a range of potential revenue impacts: a low estimate of nearly no impact, a likely estimate of nearly one product brought to market faster each year, and a high estimate of three products

brought to market faster. As seen with these estimates and understanding that the revenue benefit will accrue to the company each year, there is the potential for noticeable revenue increases from bringing products to market faster.

Table 2: Increased Revenues From Faster Time-To-Market

Ref.	Metric	Calculation	Low estimate	Likely estimate	High estimate
B1	Number of new product lines contributing to new product revenue	A6	150		
B2	Profit per new product	A7	$2,800,000		
B3	Percent new products with faster time-to-market		0.1%	1.0%	2.0%
B4	New products with faster time-to-market	B1 * B3	0.2	1.5	3.0
B5	Time-to-market increase (4 weeks)	4 / 52	0.08		
Bt	Increased revenue from faster time-to-market	B2 * B4 * B5	$33,600	$336,000	$672,000

Source: Forrester Research, Inc.

Revenues Of Incremental Sales

As discussed in the Sales Process section of this document, use of IBM Social Collaboration tools is resulting in the creation of sales communities to share best practices and the identification of technical product expertise and selling strategies that can result in increased sales (either higher value proposals or more sales completed). Forrester models this by using three estimates that provide a range of potential outcomes, as shown in Table 3 (reference row C1).

Table 3: Revenues Of Incremental Sales

Ref.	Metric	Calculation	Low estimate	Likely estimate	High estimate
C1	Average incremental sales realized		$25,000	$50,000	$200,000
C2	Number of incremental sales		10		
C3	Total new sales	C1 * C2	$250,000	$500,000	$2,000,000
C4	Gross margin percentage	A4	30%		
Ct	Revenues from incremental sales	C3 * C4	$75,000	$150,000	$600,000

Source: Forrester Research, Inc.

Staff Productivity Savings

With thousands of R&D, sales, marketing, and engineering staff throughout the world and a focus on increasing R&D capacities in the emerging markets, the need to find experts and data is critical. IBM Social Collaboration facilitates these interactions. Each day, the company is seeing hundreds of profiles and pictures being updated, with content autotagged and blogs and communities forming around specific expertise. This benefit is modeled in Table 4 with benefits accruing to all users of the IBM Social Collaboration tools. That is, although the focus of the study has been in the R&D and sales organizations, the company has rolled out the tools to a large number of knowledge workers (e.g., marketing, engineering, manufacturing for approximately 25,000 to 30,000 users) who are seeing benefits from finding information faster. As with the other benefit models, this benefit is also modeled with a low, likely, and high estimate (reference row D4), illustrating the range of benefits that can accrue to the company. Further, as companies often grapple with valuing every minute of estimated productivity savings, Forrester conservatively captures 50% of the time savings (reference row D7).

Table 4: Staff Productivity Savings

Ref.	Metric	Calculation	Low estimate	Likely estimate	High estimate
D1	Number of visitors using IBM Lotus Connections per year	7,500 unique visitors per day * 220 work days per year	1,650,000		
D2	Percent looking for expertise or information location		5%		
D3	Expertise or information location visits per day		82,500		
D4	Hours saved per visit (low = 5 minutes, likely = 10 minutes, high = 20 minutes)	minutes / 60	0.08	0.17	0.33
D5	Total hours saved	D3 * D4	6,600	14,025	27,225
D6	Knowledge worker hourly salary		$65		
D7	Percent captured		50%		
Dt	Productivity savings	D5 * D6 * D7	$214,500	$455,813	$884,813

Source: Forrester Research, Inc.

Costs

This section describes the overall costs categories to initially implement, roll out, and maintain the IBM Social Collaboration solution.

Software license fees and maintenance. Software licensing and maintenance fees are the bulk of the costs associated with the use of IBM Social Collaboration tools. The customer has existing enterprise license agreements in place with IBM and could easily leverage that buying power to receive discounts on IBM Social Collaboration fees. For the purposes of this study, IBM provided standard pricing that would be typical of a large organization but with less buying power.

Server hardware and maintenance. Server hardware is required to support the IBM Social Collaboration tool suite. IBM xSeries hardware with Linux is one cost-effective platform that can be used to support the new collaboration software. IBM indicates one server is needed for about every 20,000 users.

Internal implementation costs. For the initial rollout, the company estimates that three IT infrastructure professionals worked on the initial implementation for three months at 50% time for approximately 700 hours.

Professional services fees. Professional service fees include planning and implementation of the three environments (IBM Lotus Connections, Lotus Quickr, and Lotus Sametime), basic integration, and user interface customization. Typically, these would be services provided by IBM or an IBM-certified business partner. IBM estimates that the professional services costs would be around $15,000. The customer used a combination of IBM professional services and internal manpower that is reflective of this cost.

Communication plan costs. Due to the strategic importance of the collaboration initiative within the company, a number of internal marketing communications people helped to craft the communication plan to increase the profile of the initiative with employees. The company estimates that 120 hours of senior marketing personnel were used in the communication plan effort.

IT administration. The company allocates two IT professionals to maintain the servers and software at 5% of their time a year; about 200 hours a year.

Table 5 illustrates the costs for a 20,000-seat implementation. Note that many companies will engage in a staged enterprise rollout over a few years, e.g., 20,000 seats a year for three years. If this is the scenario, additional one-time (initial) and recurring costs for each 20,000 users will be incurred in line with the costs in Table 5, accompanied by any benefits that they would receive.

Table 5: Costs

Cost	Calculation	Initial	Recurring
License fees	20,000 seats at $75 per seat	$1.5 million	
License maintenance	20%		$300,000
Hardware (server)	1 per 20,000 seats	$13,000	
Server maintenance	10%		$1,300
Implementation/planning	700 hours at $60/hr	$42,000	
Professional service fees	100 hours at $150/hr	$15,000	
Communication plan	120 hours at $80/hr	$9,600	
IT administration	200 hours at $60/hr		$12,000

Source: Forrester Research, Inc.

Study Conclusions

Forrester's in-depth interview with a large, global manufacturing company yielded several important observations. Forrester found that organizations can realize benefits in the form of:

- Collaboration enabled by IBM Social Collaboration tools leading to incremental gross revenue from new products and products brought to market faster.

- Staff productivity gains throughout the enterprise from the ability to find and share valuable expertise.

It is important to note that values throughout this TEI framework are based on an in-depth interview with a single organization. Forrester makes no assumptions as to the potential impact that other organizations will receive within their own environment. Forrester strongly advises that readers use their own estimates within the framework provided in this study to determine the expected financial impact of implementing IBM Social Collaboration solutions. The underlying objective of this document is to provide guidance to technology decision-makers seeking to identify areas where value can potentially be created by an investment in IBM Social Collaboration solutions.

Appendix A: Total Economic Impact™ Overview

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

The TEI methodology consists of four components to evaluate investment value: benefits, costs, risks, and flexibility. For the purpose of this analysis, the impact of flexibility was not quantified.

Benefits

Benefits represent the value delivered to the user organization — IT and/or business units — by the proposed product or project. Often product or project justification exercises focus just on IT cost and cost reduction, leaving little room to analyze the effect of the technology on the entire organization. The TEI methodology and the resulting financial model place equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization. Calculation of benefit estimates involves a clear dialogue with the user organization to understand the specific value that is created. In addition, Forrester also requires that there be a clear line of accountability established between the measurement and justification of benefit estimates after the project has been completed. This ensures that benefit estimates tie back directly to the bottom line.

Costs

Costs represent the investment necessary to capture the value, or benefits, of the proposed project. IT or the business units may incur costs in the forms of fully burdened labor, subcontractors, or materials. Costs consider all the investments and expenses necessary to deliver the proposed value. In addition, the cost category within TEI captures any incremental costs over the existing environment for ongoing costs associated with the solution. All costs must be tied to the benefits that are created.

Risk

Risk measures the uncertainty of benefit and cost estimates contained within the investment. Uncertainty is measured in two ways: the likelihood that the cost and benefit estimates will meet the original projections and the likelihood that the estimates will be measured and tracked over time. TEI applies a probability density function known as "triangular distribution" to the values entered. At a minimum, three values are calculated to estimate the underlying range around each cost and benefit.

Flexibility

Within the TEI methodology, direct benefits represent one part of the investment value. While direct benefits can typically be the primary way to justify a project, Forrester believes that organizations should be able to measure the strategic value of an investment. Flexibility represents the value that can be obtained for some future additional investment building on top of the initial investment already made. For instance, an investment in an enterprisewide upgrade of an office productivity suite can potentially increase standardization (to increase efficiency) and reduce licensing costs. However, an embedded collaboration feature may translate to greater worker productivity if activated. The collaboration can only be used with additional investment in training at some future point in time. However, having the ability to capture that benefit has a present value that can be estimated. The flexibility component of TEI captures that value.